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C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 000106

SIPDIS

STATE FOR NEA/ARN AND EAP/BCLTV - LAWLESS  
TREASURY FOR MILLS/PIPATANAGUL

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SUBJECT: IRAQ REVITALIZING DEPENDENCY DEBATE BY UPPING  
IMPORTS FROM JORDAN

Classified By: Ambassador Edward W. Gnehm, reasons 1.5 (b,d)

#### SUMMARY

1. (c) New data provided by Jordan's Statistics department shows a major shift in the pattern of Jordan's exports to Iraq. What has been for half a decade a fairly static market for vegetable oil, feed, and medicine expanded comprehensively to include a wide array of additional products. The shift shows how the GOJ capitalized on preferential access to the Iraqi market, but also highlights Jordan's continuing economic dependence on exports to Iraq. End summary.

#### BACKGROUND

2. (sbu) Since the mid-1990's, Jordan has exported to Iraq under two programs - the U.N.'s Oil-For-Food (OFF) program and a bilateral protocol under which Jordan bartered goods in return for free and discounted Iraqi oil. Since 1995, that protocol has called for Jordanian exports ranging in value from \$250-\$350 million. But Jordanian exporters rarely reached the ceiling, typically exporting only around one-half of their allotment in any given year. In fact, Jordan's domestic exports to Iraq over this period averaged about \$168 million per year - an amount that, while small, still made Iraq a top-3 export market for the period. (Note: domestic exports almost exclusively represent exports under the protocol. OFF exports are primarily re-exports from third countries, and are counted under a separate line-item. End note.)

Year	JO exports to Iraq, \$mn	Export rank
1995	269.0	1
1996	135.6	2
1997	200.4	1
1998	149.7	2
1999	113.4	3
2000	141.1	2

3. (c) The composition of these exports was fairly steady over the period - about 90% of exports were composed of animal feed, vegetable oil, and pharmaceuticals. GOJ officials were careful to ensure that re-exports were not exported under the protocol, so that preferential market access was reserved for Jordanian-origin products. (Authorities have consistently told us as well that export contracts - whether under OFF or the protocol - are carefully screened by customs and security officials to ensure that no UN-prohibited goods are sent to Iraq.)

#### TURNAROUND 2001

4. (u) Preliminary 2001 statistics released by the GOJ in March 2002 showed that the U.S., primarily due to textile exports under the Qualifying Industrial Zones (QIZ) initiative, had become Jordan's number one export market, topping Iraq by about \$4.5 million. These statistics were trumpeted by the GOJ (and the Embassy) throughout the spring and summer as more proof positive of the benefits of free trade and of the re-orientation of Jordanian exports to the west. By September 2002, though, the final figures as released by the GOJ showed a starkly different picture: Jordanian exports to Iraq were listed at \$422 million, almost twice the kingdom's exports to the U.S. that year of \$232 million. These figures were a wholesale departure from the trend of the last half of the 1990's, and the new trend has continued in 2002: Jordanian exports to Iraq for the first half of 2002 stand at \$182.6 million.

5. (sbu) In addition, the composition of exports changed dramatically in 2001: vegetable oil, pharmaceuticals and animal feed together accounted for less than 30% of total exports, compared with around 90% in previous years. The balance of exported goods was all over the map - soaps, plastics, electrical machinery, mechanical appliances, textiles, and the like (Note: complete 9-digit HTS schedule of exports from 1999-2001 e-mailed to NEA/ARN. End note.).

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HS	Description	Volume (\$mn)			% total		
		'99	'00	'01	'99	'00	'01
15	veg oil	51.7	56.8	54.4	45.6	40.3	12.9
30	pharmaceuticals	39.9	58.5	40.5	35.2	41.5	9.6
39	plastics			35.8			8.5
34	soaps			34.8			8.2
85	elec machinery			32.8			7.8
84	mech appliances			30.9			7.3
87	vehicles			25.5			6.0
72	iron and steel			24.5			5.8
48	paper products			22.6			5.4
23	animal feed	11.0	17.3	21.7	9.7	12.3	5.1
total		102.6	132.6	323.5	90.5	94.1	76.6

#### THE CALCULUS OF TRADE

16. (u) Prior to the 1991 Gulf War, numerous small Jordanian factories produced soaps, chemicals, solvents, paints, machinery, and textiles for the Iraqi market. When sanctions were imposed after the Gulf War, many of these small companies either went under or went into hibernation, as Iraq was the sole market for their products. Thus many of the "new" products on the list in 2001 but absent in previous years can be considered "traditional" Jordanian exports to Iraq.

17. (c) GOJ officials have told us that two tendencies combined to dry up the Iraqi market for these companies. Some products, of course, were prohibited under UNSC sanctions. But when Jordanian companies tried to export permitted products under the oil and trade protocol, the Iraqi government in many cases refused to accept the goods. As one senior official said, "they won't take what we're making, and we don't make what they're buying." A big part of Iraq's decision not to import those goods, officials say, was to "punish" Jordan for upholding UN sanctions.

18. (c) Jordan continues to have a commercial interest in selling whatever it can into the Iraqi market, particularly in sectors that are aligned solely to that market. At the same time, many Jordanian trade experts believe that Jordanian products would not be competitive in an open Iraqi market. Thus, as the potential for military action in Iraq looms, Jordan is keener than ever to exploit their preferential market access under the protocol, in an effort to help Jordanian companies secure market share and "brand identification" before the Iraqi market opens to competition from Turkey, China, and other relatively lower-cost, higher-quality producers.

19. (c) Iraq's motives are equally apparent, if more political. In the short term, Iraq has received positive PR from being Jordan's number one trading partner and top-3 export market. Iraq has often played on this with Jordanian industry in an effort to pressure the GOJ into closer alignment with Iraqi interests. (The announcement in March 2002 that the U.S. had become Jordan's top export market no doubt rankled Iraq and could partially explain the late surge in export approvals that put Iraq firmly back on top.)

110. (c) In the longer term, by re-opening its market to Jordanian industrial goods, Iraq no doubt hopes to revive the ties between erstwhile defunct Jordanian industries and increase Jordan's economic dependence on Iraq. The high-profile visit of the Iraqi Trade Minister to the Amman Chambers of Commerce and Industry in late 2002 was an obvious attempt to underscore that dependence to both the private sector and the GOJ. Flooding Jordan with new contract approvals can thus be seen as an attempt to renew the pressure Jordan's small industrialists once put on the GOJ - pressure that has decreased as those companies grew accustomed to lower levels of business and as some companies started to re-orient toward western markets.

#### IMPACT, SOLUTIONS

111. (c) By re-opening its market to traditional Jordanian industrial exports, Iraq has potentially opened an old wound for the GOJ. Companies wholly reliant on the Iraqi market, according to GOJ figures provided in August 2002, number around 400 and employ somewhat less than 20,000 people. Add to that the 2,000 truckers who according to the GOJ earn their livelihood hauling goods to Iraq, and there is potential for significant dislocations in a sector that is just starting to regain its footing.

112. (c) After the loss of concessional oil deliveries from Iraq, the second most important channel through which a military confrontation with Iraq would impact Jordan's economy would be the loss of its preferential export access to Iraq. Although it is making some progress in increasing its exports to countries outside Iraq (notably the U.S., Israel, and neighboring Arab markets), it will be some time before Jordan has a truly diverse export base. A sudden

disruption in Iraq trade would mean loss of jobs and government revenue. One way to help mitigate this disruption would be to find ways to encourage a new Iraqi government, as well as refugee and relief organizations, to continue to procure needed equipment and supplies from Jordan to the extent possible within price and quantity restraints.

GNEHM